HOUSE OF COMMONS

Work and Pensions Committee

Oral evidence: Department for Work and Pensions Annual Report and Accounts, HC 843

Wednesday 30 November 2016

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Watch the meeting

Members present: Frank Field (Chair); Heidi Allen; James Cartlidge; Richard Graham; Steve McCabe.

Questions 1 - 116

Witnesses

I: Rt Hon Damian Green MP, Secretary of State for Work and Pensions, Department for Work and Pensions, Sir Robert Devereux, Permanent Secretary, Department for Work and Pensions, and Peter Schofield, Financial Director, Department for Work and Pensions.

Examination of Witnesses

Witnesses: Damian Green, Sir Robert Devereux and Peter Schofield.

Q1 **Chair:** Damian, could you identify yourself for the sake of the record and then your team?

Damian Green: I am Damian Green. I am the Secretary of State for Work and Pensions. On my right is Sir Robert Devereux, the Permanent Secretary at the Department, and on my left Peter Schofield, who keeps us solvent.

Q2 **Chair:** We will come on to that. Damian, when you were first offered the brief, which might have been a surprise to you, what were the priorities that first came into your head, given that you have always been a one-nation Tory and had a very clear idea about what you think a good society is about?

Damian Green: Thank you for that remark. It is true, I have always been a one-nation Conservative and remain one. Therefore my first thought was how do we align the Department's priorities with the Prime Minister's priorities, as she expressed, about helping those who are just about managing? In the subsequent weeks and few months I have been doing the job, I have refined that down to three principles, which I set out in a speech a couple of weeks ago, the first of which is that the welfare state is not enough any more, we need a welfare system if we are going to help people in the way that we all want to.

The second is that work is the best route out of poverty for most people and that therefore reforms like Universal Credit, which I have inherited, are absolutely worth carrying on with and expanding, because that is the best way to get people into work and to progress in work, which is one of the next big challenges that we have.

Then of course the welfare system needs to continue to support those who can never work. Some of my specific announcements as early priorities feed into that third priority, for instance, stopping reassessments for those who are on ESA, who have been told they are not fit for work and have degenerative conditions or conditions that cannot get better. It seems to me reassessing those time after time is not sensible. Also extending the hardship fund, so that people who have been sanctioned in previous times and did not have immediate access to the hardship fund, such as those with mental health conditions and those who are homeless, they should get that immediate access. Those are some of the big priorities.

There are also others in the pension field, which are to try to use the system to persuade as many people as possible to save for their own pension so they have something on top of the basic state pension. Although the new state pension does take people out of poverty in a way that we have not seen before, we all know that people will have a more comfortable and therefore more dignified old age if they have done some saving themselves. The expansion of the auto-enrolment system seems to me one of those very, very important long-term policies that doesn't grab any headlines on a day-to-day basis, but in 10, 20, 30, 40 years' time will be making lives better for several decades at the end of people's lives in ways that you will look back on and think, "Oh, that was a good decision". That is probably enough early priorities. If I do any more, they are not priorities, I suspect.

Q3 **Richard Graham:** That was interesting, thank you, because that helps in a sense one of the questions I was going to ask, which was Stephen Crabb laid out his three priorities as rollout of the Government's Universal Credit, work and health, which was a bit broader, and the life chances strategy. You have now helped put a bit more detail on the sense of direction, the three principles that you laid out in the middle of November. If you were asked for your three priorities on detailed stuff, are you plumping for the rollout of auto-enrolment, working out how best to help the minority who cannot work more effectively? Then there is a third one in there somewhere. What would be your three?

Damian Green: It would be making work pay. To turn that into a policy priority is ensuring the success of Universal Credit, because that is the radical beneficial change you get from Universal Credit. I think by making work pay, it is not just the sort of traditional DWP view of "You have somebody who is unemployed, let's help them into work". I think particularly at a time when, by any standards, the number of people in work is at a historic high, more women in work than ever before and all of that, you have never cracked that problem, but at the moment that is going very well.

The key thing is to enable people to progress in work, because to advert to the point about just about managing, a lot of those people will be in work. Those are the people the Prime Minister was thinking about. They are working hard, they are doing all the right things, and yet life is a struggle. One of the opportunities we have with Universal Credit is that work always pays. It is why, for example, we reduced the tapers as one of the actions in the autumn statement, to make work pay that much more, particularly for people in work. That is one. Sorry, I will not expatiate too long on each of the ones.

Q4 **Richard Graham:** I suspect there will be questions coming in on Universal Credit and making work always pay. Just on the other part of that, which was making savings pay, which is where auto-enrolment comes in, what sort of threats do you see to the success of that policy, because there are a number of challenges out there?

Damian Green: There are. The biggest threat—which has not materialised, gratifyingly—is that people think it is not worth it. I know a lot of 20-somethings will think, "Pensions? They have all gone horribly wrong. Nobody is ever going to pay me a pension. I will just work until I am 70". When you are in your 20s, that feels so distant you do not do anything about it. That has not happened. The opt-out rate is much lower than we thought, so we appear to be over that hurdle.

I suppose the other hurdles are that employers themselves need to want to do it. I am conscious that we are at the early stages, because people are paying in, both as an individual and an employer, low percentages now. Those percentages will go up over the next few years, so I suppose the biggest challenge is making sure that we continue up that progression so that we get people within three or four years saving 8%. As you will know, there is a lively debate about whether 8% is enough. A lot of that will depend on when in your working life you start saving that amount. There are clearly challenges ahead on that.

Sorry, I slightly interrupted myself, Chairman. Richard asked for three priorities. The other two would be getting more people into work from groups that have not, as yet, been able to share in the job creation of recent years, so particularly older workers and workers with a disability or a long-term health condition. The third one would be helping more people save for a pension, which we were discussing.

Q5 **James Cartlidge:** This picks up on the point you just made, Secretary of State, because—and I have made this point several times in the Chamber—as a small business owner, I was so frustrated by the impact of tax credits on people, members of staff, unwilling to work beyond 16 hours and these various cut-offs. I certainly think if Universal Credit can address that, that is very important. What I wondered, do you have any kind of target for not so much getting people into work, but for those who are in part-time work and have been disincentivised to work longer? Do you have any kind of target to increase the number of people in those situations who are working longer hours and going towards full time?

Damian Green: We do not have an explicit target, but I suspect the challenge will be to get rid of the mindset that suggests, "Working over 16 hours does bad things to me". It has happened for so long, that the benefit system has created jobs for up to 16 hours; 30 hours is the other great cliff-edge. I have a horrible feeling that in 15 years' time, people will still be reluctant to move from 15 to 20 hours a week because they vaguely remember that something bad happens to their benefits. It does seem to me a sort of education job as Universal Credit rolls out around the country to make sure that people get out of that mindset, because we have seen in the areas where it is rolled out that it works.

For every 100 people who were finding a job under the old system, 113 do under this system. People spend longer searching for work and work more hours after they get in work, so it does appear that when you are receiving Universal Credit, the old prejudice and the things that the business owners would have found frustrating do go away. But I am conscious that it is not—

Q6 **James Cartlidge:** That is slightly worrying in a way, for that to persist. Certainly in political terms it seems to me that there are many who see in-work benefits—I am not saying there should be a stigma—there is no stigma, in the sense that if someone is on an unemployment benefit and is fully unemployed, there is a consensus that we should move them into work. There doesn't seem to be a groundswell of feeling that people who are on in-work benefits should try to reduce and minimise the amount of in-work benefit. That doesn't seem to be the case at the moment. I am just wondering, it may not be a target of yours, but is it nevertheless a priority?

Damian Green: That is one of the reasons why we cut the tapers. That is effectively a 2% cut for anyone on Universal Credit. The driver to do more hours is straightforwardly that you are keeping 35p—from next April it will be 37p—of every extra £1 that you earn. On the whole, money is quite an effective driver. If you say that to somebody, they will always rather get more money.

Q7 **James Cartlidge:** But of course for that to work well, the system has to be effective. The administration of it, obviously it was delayed for a year, a further year. Can I ask what adjustments you are having to make to keep the legacy system operational and ticking over? Maybe that will be one of the officials, I am not sure.

Damian Green: I do apologise, I have been talking a lot. Do you want to take the lead?

Sir Robert Devereux: Just to pick on the last question you were on though, one of the things that we are doing are some trials now about what interventions would you make with people in work to work out what is a constructive dialogue: what are the sort of offers of help; how do you have that conversation? Because we have an organisation that is very good at persuading you to be in work, but this is new territory. We have around a dozen trials operating and have done for the last 18 months or so. That will inform the answer to your question, which is what would we then do.

Q8 **James Cartlidge:** Is the system coping at the moment?

Sir Robert Devereux: Yes. You are asking, because of the change in the timetable, whether there is anything else that we need do in the existing system. The existing system works, it has been working since 1996, so I am not sitting thinking that the JSA system isn't going to function or the ESA system isn't going to function. We are going to have make sure that we have the right people in the right place based on a different rollout, but that is perfectly possible to deliver.

Q9 **James Cartlidge:** Can I ask about fraud? The first assessment of fraud and error for Universal Credit shows it is higher than with Jobseeker's Allowance. Can you explain the reasons for that and what you are doing to address that?

Sir Robert Devereux: We did indeed publish those numbers. The principal difference, which I have explained to the Public Accounts

Committee before now, is a class of claimant who, when we tried to do the sampling—which is how we find out the errors—we could not find, we could not make contact with them. In general, if you cannot make contact with somebody when you are trying to look at their benefit, you assume the worst and we put them in as fraud. By the time we had published the data, we had tried all the attempts to get hold of them and we could not find them. Because this bothered us, that this number was so high, we subsequently made even more efforts to find them.

From memory, of the 33 cases that underpinned those statistics, we found 30 of these individuals. In every single case, they were perfectly entitled to the money they received, so we have overstated the extent of fraud and error you see in the first published statistics. We have had a long conversation subsequently with the National Audit Office about what is the methodology that we should use to make sure that something that has taken us a long time to find out after the report—

Q10 **James Cartlidge:** In terms of tax credits, which obviously now comes into Universal Credit, it was well-known that we had a huge problem with fraud, and in particular overpayment that had then to be claimed back and caused all kinds of issues. Is this something that will be less of a problem with Universal Credit?

Sir Robert Devereux: Yes, it will indeed. There are two quite different ways in which measured fraud and error occur, and because the tax relief system is essentially an annual system, you can declare anything up to the end of your year to restate what may have gone on in your year and that isn't counted as fraud and error. It is only when you have done the end of the year assessment and we then find it is wrong that we call it fraud and error. In the welfare system, and the same is true with Universal Credit, we will be paying this monthly, so all of your changes that happen now we will want to be notified of and will be reporting.

Damian Green: In effect, in sort of human terms, under the tax credit system, what can happen is that you have to take back a huge overpayment from people.

James Cartlidge: Absolutely.

Damian Green: They will have done nothing wrong and yet they will have been overpaid. Just in human compassion terms, this system is a lot better for people who are on it than the old tax credit system.

Peter Schofield: It might be also worth adding that we have introduced a new over-arching target that covers net overpayments for both HMRC and DWP as we make the rollout from tax credit to Universal Credit. We have a target that enables us to focus on driving down levels of net overpayments as we make the migration.

James Cartlidge: That might be something we want to keep an eye on then.

Q11 **Chair:** Damian, couldn't we present your stance on Universal Credit in another way, that you see it as quite a failure? By now, the original estimates were that the system would have been rolled out totally. You very wisely know you have something very fragile here, which could blow up in a nasty way. As somebody with good political sense, your rollout is almost at snail's pace so that any of the vulnerabilities of the system might be coped with in a measured way rather than a chaotic way.

Damian Green: I would describe it as steady. We are steadily rolling it out to about five new job centres a month. It will be 46, I think, off the top of my head, by next month, by December. But we are not going to carry on with that pace forever, we will accelerate quite significantly during the summer and autumn of next year, where we go up to something like 50 per month.

Q12 **Chair:** Are those five taking on the complicated cases or are they still just the simple cases?

Damian Green: Everyone now. Yes, all new cases.

Sir Robert Devereux: This is a completely different rollout. The original one that has gone around the country to make sure that Universal Credit is available to all single job seekers, in the parlance, was indeed one category of person. Just to be clear, when people say they are simple, they might be simple in terms of the benefit administration. Since they had by far the highest of the conditionality in the old system, the fact that the Secretary of State can quote the improved employment outcomes—they are potentially the hardest group of people to help to improve employment outcomes. But the rollout that we are currently doing is the full service, so if you go to Rugby today, you may not claim tax credits, you cannot claim ESA, you cannot claim income support, you cannot claim JSA. You have to claim Universal Credit, whatever your new circumstances are. That is true in the 46 places, so in each one of these places, the entire new world has arrived and other cities are waiting for that to come in.

Q13 **Chair:** My point, Robert, was slightly different. It was that if you looked at the original statements by the Department, all claimants would now have been on Universal Credit had you been able to maintain what was originally the target.

Sir Robert Devereux: The previous Secretary of State but one made a virtue, I thought, of explaining how over the period in office he realised that rolling it out safely and securely was exactly as you implied, a smarter way of doing it, rather than taking a risk.

Q14 **Chair:** I do not dispute that. I am just making the comparison, how the new Secretary of State defends this, that was all.

Damian Green: In the end, when it is fully rolled out, the most important thing will be that it works. Having a glide path, if you like, that everyone can cope with, which means that people on the benefit get it and all the things that you need with any benefit seems sensible. The other thing that I have done is introduce for the first time an element of contingency. There are now some months where at the moment there is a capacity to pause for breath, which was not in there before. I just think if you are running a long, complex project, that is quite sensible.

Q15 **Chair:** What is the date when it will be fully rolled out, covering everybody?

Damian Green: 2022.

Q16 **Richard Graham:** Can I just come in? There is one interesting aspect of the rollout of Universal Credit that has a possibly unintended consequence, which is that when the unemployment figures come out, they now include people who are on Universal Credit. Effectively, statistically, if I understand it right, almost the assumption is that those people on Universal Credit are not in work. In the case of my constituency, Gloucester, I have seen apparently the employment figures deteriorate slightly against sort of an overall increasing improvement in the country. I am trying to understand how this works. I then go back to my Jobcentre Plus and I say, "How many people are now on Universal Credit?" which is an increasing figure, "How many of them are in work?" and then I deduct the people in work from my unemployment statistics and I have a gently improving situation rather than a gently deteriorating one. But I cannot publish those as the figures, because they are not. The stats are the stats, you cannot argue with them.

It seems to me there are two things possibly that would be really helpful to know from DWP. One is in a sense an update on a regular-ish basis as to how many people on Universal Credit in our constituencies there are. The second that would be really helpful would be to know within those how many of them are in work. The third thing for the Department as a whole is to try to work out whether there is a better way of presenting these unemployment stats that reflect the fact that many people on UC are of course in work.

Damian Green: My constituency is similar and I have noticed the same effect, that JSA claimants used to be included in the unemployment figures, for obvious reasons. UC are included as well, and yet a lot of them will be in work. But you get the number of people claiming UC in interstices of the unemployment figures, but not, I agree, those who are in work, those who are out of work. Of course people will oscillate. The fact that you can stay on Universal Credit and be in work and maybe have a spell out of work and stay on, that will be quite complex.

Q17 **Richard Graham:** But as the numbers in Universal Credit increase, the impact on your employment stats is going to be huge over time as you get closer towards 2022.

Sir Robert Devereux: I am happy to go and check, but we spent a long time without adding Universal Credit into the unemployment figures because the statisticians were trying to work exactly how to differentiate the boundary you were just discussing. I had thought that—but I will go and check—we were putting into the unemployment statistics those people subject to full conditionality within Universal Credit, not that we are simply putting everybody in. I will go and check that, but your assertion that basically we are counting as unemployed people we know are in work would make the statistics quite wrong.

Q18 **Richard Graham:** If it would be possible, Chairman, I think it would be incredibly helpful if the Department could give us a note on that, if it is the case that basically everybody on UC is going into the unemployed figures, how the Department proposes that this alters over time to give a truer, real reflection.

Sir Robert Devereux: Let's go away and find out which of us is right.

Q19 **Chair:** Could you? A general one and then specifically for our constituencies, how it affects the data. It would make a good press release for us, you see.

Damian Green: Trust me, we have no desire to artificially inflate the unemployment figures. That would be perverse.

Q20 **Richard Graham:** But ironically, at the moment, I think it is the opposite.

Damian Green: Yes, if you are right.

Chair: That is why I think this might be a good story for you.

Q21 **Heidi Allen:** Damian, you will know I am delighted to hear that your two top priorities are making work pay and getting those who have not been able to work into work, when they can, disabled people, etc. Also great to hear the good news in the autumn statement that we have found some extra money to put into the taper rates. You are absolutely right, your words ring very true: money is an effective driver. That is why many of us were pushing so hard for it.

Don't mistake me, I know money is tight, and I was very, very pleased that we found that extra money, but it is a fraction of what we need to put Universal Credit back—as I describe it, to give it its mojo back—as it was first developed as a system. Both previous Secretaries of State have said that we need to turn the clock back to where it was. Talk to me about how money can be an effective driver and how you can get those who are perhaps further away from the workplace, disabled people etc., if we are not able to raise their work allowances, which is the very essence of how you encourage them into work in the first place.

Damian Green: The reason we chose to change the tapers rather than the work allowances was twofold, that first of all, we are at historically high rates of employment, so the work allowances were less of a priority now than helping everyone throughout the system. Secondly, of course, changing the tapers bakes in an improved incentive for everyone. As it rolls out, that means that we can all know that we are helping more and more people as time goes on. I observed as a fact that when I started doing this job, I was talking about more than 300,000 on Universal Credit; I am now talking about more than 400,000 on Universal Credit. That number will go up. Reducing the tapers helps all of them.

The other point is the area I spoke about about progression in work, that at these low levels of unemployment, a lot of the people who need help most, a lot of the people who are just about managing, are those who are in work, but who are still reliant on benefits, increasingly on UC.

Q22 **Heidi Allen:** Do you think keeping 2p more in every £1 will be an effective driver, as you describe money can be?

Damian Green: I do, because we see it, not just in the benefit system, but in the tax system. Nobody has ever sniffed when a Chancellor of the Exchequer cuts 2p off the basic rate of income tax. People think, "Oh, that is effective". First, it is welcome, and secondly, it—

Q23 **Heidi Allen:** Yes, but typically they are people who are earning money sufficient to be worrying about tax. A lot of the people on Universal Credit we are talking about are not at that level.

Damian Green: Exactly. Therefore the lower the income level you are at, the more improvements like that will make a difference, because of course it is not 2p, it is 2p in every £1. You will be earning hundreds—maybe low hundreds, but hundreds—of pounds a week. It is quite a significant amount of money, which will enable people to manage better. I think extra amounts off tapers are more important for people at the lower end of the income spectrum than maybe 2p off income tax would be for somebody in a very highly paid occupation.

Q24 **Heidi Allen:** I am not ungrateful. Money doesn't grow on trees, I appreciate that, but there are many of us who worry desperately about people on extremely low incomes, particularly in the wake of Brexit, because I think, whether you are Remain or an Outer, it is going to get bumpy and the people who will suffer most are those on very low incomes. We need to protect them from that, because as I have described before, they are the engine that keep the country running. If they are not working, the country is not working.

Do you disagree with your two predecessors who feel that Universal Credit is now only half the system it used to be?

Damian Green: I don't think either of them said that. Clearly there is a point to be made about the overall constraint, we cannot spend what we do not have and we are still borrowing very large amounts of money. We are on a path to eliminating the deficit sometime in the middle of the next Parliament. It is a difficult job and it is an essential job—we have to do that, precisely to have the kind of stability in the economy that helps particularly the low-paid people, who may find it difficult to find jobs. If you have a financially stable economy, you are more likely to create jobs, as indeed we have shown over the past six years. Given those constraints, which frankly are always there on public spending, you can never spend as much as people would want to spend—

Q25 **Heidi Allen:** No, but we have choices, the triple lock on pensions, for example.

Damian Green: But we have choices. For the reasons I say, with historically high employment levels and looking ahead to the fact that we can see an inexorable rise in the number of people receiving Universal Credit—from 400,000 now to 3 million in four or five years' time—it seemed to me that getting reduced tapers into the system was the best way of giving some help to most people and to an increasing number of people, if you are right and the economy does go through a bumpy period. We have seen the forecasts that next year looks like a dip in growth, though not a recession. I think the OBR's projection was for unemployment to go up to 5.5%. We are 4.8% at the moment, so that would be a small increase. We will see what happens, forecasts are forecasts, but yes, I do think that what we have done is the best way to help most people for the long term.

Q26 **Heidi Allen:** It does affect everybody on Universal Credit, of course. Given that the rollout is slow—and unlike Frank, I am pleased it is slow, because it is—

Chair: No, I am.

Heidi Allen: —protecting more people. Maybe I am more hopeful, I don't know. It is protecting people for longer until they get on the system. Universal Credit, as we all know, is predominantly only single people with relatively uncomplicated lives, no care and responsibility, no health issues etc. In the context of an economy that could get bumpy and the fact that we will not start to see a significant number of more complicated cases, people with children etc., rolling out until next summer/autumn, as you have described, and through to 2022, might there be an opportunity to look at the taper rates again before too many people are affected? Because I still feel we have a stay of execution before significant numbers of people who will really be affected by those cuts in work allowance are put on to that system.

Damian Green: As I say, these taper rates will come in next April, so there will be by then increasing numbers of people on it, because there will be an extra five Jobcentres a month doing it for all types of claimants between now and next April. I think the sensible thing to do is to look at what the effects are and see what happens. As I say, the early effects on the group, the single unemployed, have been hugely beneficial. Let's see if we can measure what changes there are because of the changes in the taper rates. But I will make the obvious point that all changes like this are decisions for the Chancellor of the Exchequer. I think we are still going to have a Budget next spring and then another Budget next autumn—

Heidi Allen: One way around or the other, yes.

Damian Green: —so they are there for the Chancellor of the Exchequer to take at the time. It is not for me to anticipate.

Q27 **Chair:** Damian, there will come a time when there will be spare capacity in the Budget for tax cuts. Can I assume from what you said that you and the Prime Minister, in your concern to help the JAMs, will be saying a more effective way of helping them would be changes in tax credit rather than in making universal tax changes that will affect you and me and everybody else?

Damian Green: Do you mean UC? You said tax credits.

Chair: Yes, sorry, Universal Credit.

Damian Green: I think it would be wrong to anticipate what I would think about any economic situation in the future. It would be even more wrong for me to anticipate what the Prime Minister might think about any particular tax changes.

Chair: She has declared where she stands on all this.

Damian Green: She has made it clear that she is in favour of helping people who are just about managing; not just in favour, that is a huge priority.

Q28 **Chair:** I just wanted to know in that battle whether you are going to be standing with her or whether you may be on the other side.

Damian Green: By definition, I always stand with the Prime Minister, as all Secretaries of State always do.

Chair: That is very good to hear.

Damian Green: But I genuinely cannot anticipate what view the Prime Minister will take about a relative tax change. I am also delighted to hear that you think there will come a time when we will not need to consider questions of public spending.

Chair: Of course there will.

Damian Green: I have never observed that, except—

Chair: No, I think good times will come again.

Damian Green: We could get dangerously—

Chair: I am not pessimistic on this at all.

Damian Green: I think in the labour market we have had some very good times over the past few years. The fact—

Q29 **Chair:** Every forecast has been wrong, so I do not see why we shouldn't be optimistic.

Damian Green: I think, frankly, it is a matter of temperament as much as anything these days.

Q30 **Richard Graham:** It was encouraging to hear the Secretary of State suggest that there is going to be further good news on employment, but can you just confirm what your predictions are in terms of numbers of employment? I think the Chancellor hinted that there would be a further 500,000, was it, in the Green Book in terms of numbers of people coming into employment?

Damian Green: Yes.

Richard Graham: What is your Department's broad expectation for the rest of this Parliament on employment?

Peter Schofield: I have the extract from the fiscal and economic projections from the Office of Budgetary Responsibility. They have revised up their unemployment projections following the slower growth in GDP. They are expecting unemployment to peak at 5.5% of the labour force in mid-2018, which is up 0.3 percentage points, or around 100,000 people. That is relative to their March forecast, so it is that order of magnitude we are talking about.

Q31 **Richard Graham:** So in absolute terms, does that mean employment is rising or falling?

Peter Schofield: That is about unemployment and obviously seeing a rise in unemployment in that context.

Q32 **Richard Graham:** That is an anticipation of a modest rise in unemployment of 100,000 over the next two years?

Damian Green: Peaking at 2018 and then coming down again, because it is obviously generated from their growth projections, which show that this year is stronger than they thought. Next year, off the top of my head, it comes down to 1.4%, then it goes up to 1.7%, then back to 2%. At that point, you would expect unemployment to start falling again. But as the Chairman has wisely observed, all forecasts have been wrong recently.

Q33 **Richard Graham:** What is the overall impact of that then on departmental budgets and so on, presumably an increase in benefit payments?

Peter Schofield: I have found the answer to your earlier question, Mr Graham, in terms of the number in employment that is assumed, which may be helpful to the Committee as well. As I read it, they are projecting—this is page 12 of their economic and fiscal outlook—that the labour market figures will show employment numbers in millions, rising from £31.7 million through to £31.9 million in 2018 and rising through the period.

Q34 **Richard Graham:** That includes people on Universal Credit who are in employment?

Peter Schofield: That will be their definition of employment, which would be flowing from, I imagine, the ONS and their own way of looking at this through the labour force survey.

Q35 **Richard Graham:** Peter, sorry, is that a yes? Does that include people on Universal Credit who are in employment?

Sir Robert Devereux: They don't do these projections based on benefit flows. They will be doing them from economic models of where they think the labour market is. That is the projection of employment, and by policy that will include Universal Credit.

Q36 **Richard Graham:** It is just a case of making sure the definitions are the same, isn't it?

Can I just move to the benefit cap? Speaking personally, the reduction in the benefit cap to 20K for constituencies outside London is pretty welcome in a place like my constituency, where the average wage is less than the average national salary of £24,000. In fact, some people might think that the benefit cap is still quite high. But of course others with constituencies closer to London with higher costs of living may feel differently. My question is where does the cap go from here? Are you, for example, contemplating fine-tuning the differences simply between London and the rest of the country or are you going to maintain it exactly as it is, both in terms of the geography and the absolute level in this Parliament or would you think of indexing it so there is no need for an annual debate and an annual decision? What is your thinking on this?

Damian Green: I have not thought about indexing it, so at the moment it is where it is. You are right to make the point: one of the reasons to have it London and the rest of the country is because that is obviously the biggest disparity in terms of wages. Indeed, often I think this debate is confused. The cap outside London is now £20,000. Of course in earnings terms, that is the equivalent of £25,000, roughly speaking, and indeed, I have a helpful chart here that tells me that in your constituency, median annual pay is £22,600. You could still be earning median annual pay and have less available income than somebody on the benefit cap in your constituency.

Q37 **Chair:** Do you not think that is an injustice, Damian?

Damian Green: One of the reasons for a benefit cap is precisely to get that sense of fairness. Most people who attack the benefit cap attack it from the other side, saying, "This is unfair". I disagree. The concept was that you could not get more on benefits than an equivalent family that was working. This lowering makes that more possible in other parts of the country.

Q38 **Richard Graham:** You could argue that if the benefit cap is still higher than the net median wage in a constituency that it is still a bit high in some places and no doubt it will be a bit low in others, which brings us back to the question of how you decide geographically where to—

Damian Green: It would be confusing and administratively a nightmare for the Department if we started trying to do it by local authority area.

Q39 **Heidi Allen:** But quite difficult for the people who are living with it as well, I would say.

Damian Green: Yes. In your constituency, the median annual pay is £28,000, so—

Q40 **Heidi Allen:** But house prices are 16 times the average salary.

Damian Green: Yes, exactly. There is clearly a justification for having a London and a rest of the country distinction, because London's economy in all sorts of ways is so radically different. I think complicating it further would probably be ill-advised, and so in the end you are having to strike a balance between different parts of the country.

Q41 **Chair:** But most of my constituents are not on the median, they are earning less than what the benefit cap is. How do I answer them?

Damian Green: To say that the benefit cap is there for a much fairer system than it was before.

Q42 **Chair:** Than it was before, yes. They are amazed we have not dealt with this ages ago, not that we are trying to deal with it now.

Damian Green: As I say, we have reduced it. The other thing to look at is the effects of the benefit cap. Since 2013, just over 79,000 households have been capped and of those 23,500 have gone into work. Indeed, that is the answer to the sort of median income point. What I would like to do is to see wages rising, perhaps particularly in areas where they are relatively low, hence the national living wage, hence taking low-paid people out of income tax altogether. Both of those are very, very effective ways. The biggest wage rise of any part of the population over the past year has been the 6% enjoyed by people who were on the minimum wage and are now on the national living wage, so I am sure we would all welcome that.

Q43 **Richard Graham:** It is a very good point, Chair, but the one thing that does come out of that is the statistic you have mentioned, that 23,000 out of 76,000 are now in jobs, so roughly a third, just under a third. That is a much higher statistic than the IFS, who claimed that only 5% of those affected by the original 26K benefits cap moved into work as a result. If your statistic is the right one, which I am sure it is, it might be worth highlighting that to the IFS, who clearly have not understood the impact on people coming into work affected by the benefits cap.

Damian Green: As I remember the IFS line, they said that was something slightly more complex, that that 5% was not just about those who had got into work, it was the difference. Can you remember what that was?

Sir Robert Devereux: Yes. I agree that they were not trying to make an alternative estimate of the things the Secretary of State has talked about. I think they were looking at some rates of change of something. I cannot quite remember what it is.

Q44 **Richard Graham:** We might, Chairman, just have a look at that statistic.

Can I just ask, what are the savings from reducing the benefit cap? Those savings, are they effectively recycled into other areas of the Department's budget or are they given back to the Treasury?

Damian Green: It saves us £65 million this year and £155 million in 2017-18.

Q45 **Richard Graham:** If it was continued at the same level for the rest of this Parliament, then presumably those savings continue to increase?

Damian Green: Yes. Obviously it depends. There are always behavioural implications.

Q46 **Richard Graham:** Changes, yes. What happens to those savings, Peter?

Peter Schofield: This is part of the annually managed expenditure, which is managed across the piece. It is not part of our own departmental expenditure limit.

Q47 **Richard Graham:** So effectively if those savings were not generated, there would have to be equivalent cuts somewhere else?

Damian Green: Yes, absolutely. It is all income. As you know, we have this peculiar thing where we spend about £6 million a year but hand out the best part of £200 million year in AME expenditure.

Q48 **Chair:** But in explaining still the disquiet with the benefit system, Damian, if I think of my own constituency, the rule used to be that you could not earn more on benefits than when you were following your normal occupation. We still have quite a long way to go, haven't we, in tax cuts, in other increases and the living standards of those in work before we restore justice to those who work compared with those on benefit?

Damian Green: I think we have made quite considerable strides—

Chair: No, I am not disputing you have moved on this.

Damian Green: —in the face of opposition. What you need to do to restore justice, as you say, is to operate on all levers at once. The benefits system is clearly a very, very important lever, particularly in terms of those who are on relatively low pay, but the tax system is equally important, and indeed the basic level of pay. On top of all of that, of course, is the basic availability of work. In the end, if you believe, as I do, that work is the best route out of poverty, then one of the things—of all the levers you need to pull—you have to do is try to help create jobs. As I say, looking at it subjectively as I can, sitting in this seat, it does seem to me that over the past few years, one of the things our system has been best at is helping people generate jobs. That is why we have historically high levels of employment. Carrying on down that road seems to me particularly helpful for those—maybe many of them in your constituency—who want a job and need a job.

Q49 **Chair:** I am not disputing that. Having the jobs there is a crucial factor. What I am saying is that for many, when you have open borders, for some people the benefit cap is preferable than to taking work. I think other people fill those jobs.

Damian Green: I am sure it is not preferable for them in the long run. There may be some element of that happening. I feel you are tempting me not to perform my responsibility.

Q50 **Chair:** No, I am in favour of those claimants working. What we are seeing is the benefit cap is dealing with an injustice and it is helping people into employment who might not otherwise have entered employment. The excuse that there are not the jobs is not necessarily true, even in my constituency.

Damian Green: I completely agree with all parts of that, yes.

Q51 **Chair:** The living wage strategy is an important part of that, but also keeping on pressure—that a life on the benefit is not desirable for those who can work—is very important.

Damian Green: I think that is right. That is particularly true in those areas where we have not been as good at getting people into work, particularly in the case of people with a disability. We know the figures, that if you are able-bodied, 80% of people of working age are at work. People with a disability, it is around 50%. It has improved. There are 600,000 more people with a disability in work over the past three years and the disability employment gap has narrowed, but we need to do a lot more on that. That is the whole thrust of the Work and Health Green Paper, precisely because I completely agree that for the vast majority of people having a job is not just good for them financially, it is good for them in all sorts of other ways as well. It gives them more control over their own lives and so on.

Q52 **James Cartlidge:** Just on the cap, I was quite intrigued, because I must admit I share this feeling. It may be that the voices you hear are the ones who shout the loudest, but I think in many areas, the non-London cap will be seen as generous. I just wonder, are you unable to change that because of your pledge that there will be no new search for cuts in individual welfare benefits? Would it cover that?

Damian Green: Yes. Having said—and not just me, but the Chancellor as well—that we are not looking for new cuts, we are not looking for new cuts.

Q53 **Steve McCabe:** I just wanted to ask about the issue of disabled people in work. You are not the first Minister to have said, "We must do more and we could do better. There is going to be a Green Paper". This is a very clearly defined group. Shouldn't we have a series of robust pilots using the best information currently available to target getting people with disabilities into work so that we can demonstrate what will make a difference, rather than go around the loop of Green Papers, wringing our hands and saying, "Oh, we need to do a bit better"? Haven't we had all that before, Secretary of State? Don't we need some clear pilot exercises to show what is going to make a difference?

Damian Green: We have had lots of talk about papers before, but now we have published one, so that is a first.

Steve McCabe: A little step forward, I concede.

Damian Green: It is quite a big step forward, I think. The point is that this is a Green Paper that is meant to and will lead to action, because what we have identified—and you are right about pilots. Read the Green Paper and you will find that there are lots of ideas in that, which we will be trying out in different parts of the country. The insight, if you like, of the Green Paper is that no one part of the system can solve this problem, that we need to get the health service, for example, to be much better at diagnosing people with mental health issues and so on. That is why it is a joint Green Paper between me and the Secretary of State for Health, which is a first as well. We have not done that before.

We have to improve the way Jobcentres help people with a disability into work. We know that, so that is something that we can do. But importantly as well, employers' attitudes have to change. That is why a large part of it, which is already happening, we have revamped the Disability Confident scheme and relaunched that, because—it is the same point the Chairman was just making—if there aren't jobs at the end of it, then all this activity by the public sector will have no measurable effect. We know we have to get the employers onside with this. I think the best people to convince employers of the benefits of taking someone with a disability are other employers. I can preach until I am blue in the face, or Penny Mordaunt, the Minister for Disabled People, can do the same, and we can and do that. But it will be other business people that convince business people; we have a team of them on it as well.

The other point I would make is that we are trying harder than ever to involve NGOs, third-sector charities, and so on to not just tell us what we should do, but go out and run projects themselves, because very often they will have the expertise, and local knowledge, and things like that that will solve local problems in a way that has not happened before. The Green Paper absolutely is just a start, because we have to do this for all sorts of reasons, mostly for the individuals themselves, but also for the state of the economy. It is one of the big areas, 4.5 million working-age people with a disability; we need more than half of them in work.

Q54 **Richard Graham:** Secretary, can I just explore that a bit further without repeating too much of what I or others said in the session with Penny Mordaunt the other day? I am absolutely convinced that whatever the incremental benefits that will come out of all the things that you and she have described—and there will be benefits, I agree, from the Green Paper—nonetheless I don't think, from what we have seen so far, there is much likelihood of really meeting what was originally our goal of trying to get 1 million people with disabilities back into work this Parliament, as things stand. It does seem to me that there is some evidence—though the Department could quite possibly help by doing a bit more research on this—from both North America and the Netherlands in terms of what impact National Insurance incentives gives to employers as a carrot to make them start employing people with disabilities when they have not done so before.

I know there is a philosophical argument that says that is not the point, the object is not financial incentives, it is to do it because it is a really good thing and you are going to get great employees. Nonetheless, the NI carrot worked incredibly successfully for apprentices when we introduced it, particularly for smaller employers. The argument was exactly the same: you are taking on apprentices because it is going to be good for the business. People did take up the carrot.

Therefore, I wondered whether—building on Steve's point—you might not be able to negotiate with the Chancellor trying that out in one particular area, one particular city, one particular sector, or whatever. A small pilot scheme as to whether if you offered discounts on National Insurance for a number of people with disabilities that suddenly wouldn't see an increase in the number of people with disabilities into jobs. From that you could then generate stories that demonstrate managers and directors of businesses saying, "I did this to do the right thing and because there was a National Insurance incentive, but what I found out is they are fantastic for the business in what they can do, and the impact on other people, and so on". Then you would have some evidence against which either to drop it or to go back to the Chancellor and say, "We can save some money on this in the longer term from reducing the benefits and having more people in employment. Can we not roll it out further?"

Chair: You have five representative cities or towns here who would love to see you try it as pilots.

Damian Green: I can imagine, yes. The volunteers for pilots I am sure will be extensive. Let me think about that. What is interesting is that without any of the carrots, as you say, it is not just 600,000 over three years, it was 242,000 more disabled people in work over the past year. There are clearly a lot of businesses out there who are taking people on with a disability, and presumably benefiting from it without any extra carrots.

Heidi Allen: Although employment is going up anyway.

Damian Green: Yes. Unemployment is at 4.8% now, so that is quite close to full employment. The numbers of new workers are in the inactive groups, many of which will be people with a disability. That is where we are looking at. But as I say, the evidence is it is happening. The disability employment gap has fallen by 2.3 percentage points in a year. All I am saying is: without the carrots there is a lot happening out there that is good. We are building on something that does not feel—we are not starting from scratch.

Q55 **Richard Graham:** No, indeed not. But the original goal is going to be quite hard to achieve without some additional, extra boost, isn't it?

Damian Green: The original goal, when you go back to the manifesto, it just said, "We aim to halve the disability employment gap". It did not put a timescale on it. I said before, and I will say it again here, it is tough to do that in a measurable period of years. I think it would be unhelpful to set unrealistic targets for it. What I can say is that it is happening, disability employment is coming down.

Q56 **Heidi Allen:** The Green Paper, of course, is brilliant, getting everybody talking about it. Many of us, I think, worry about the pressure that is going to be on job coaches. We are expecting them, if we are not careful, to become experts on everything, plus they are also going to have to deal with a new benefit system, Universal Credit, rolling out. It is fantastic that we are talking about local commissioning jobcentres, potentially, of third-party organisations. It just occurred to me—this is my personal thought—why do we not take the jobcentre out of it for people with certain areas of disability, or mental health conditions, whatever it might be, who have very particular needs? Why do we not just commission those charities directly?

I look at organisations like the Papworth Trust in my constituency, who are a big disability charity, who we discovered on a Select Committee visit—it must be over a year ago now—were delivering the Work programme for regular, relatively easy to get into the workplace individuals, because the commissioning to do Work Choice did not work out for them, was not financially viable, but they have the expertise. Why can't we just direct people at some point—wherever it is that they are triggered in the process of ESA or whatever it might be, if you are a person who is going to need additional benefit support to get into work, just leave the jobcentre out of it? Work coaches are never going to be the same experts that disability and third-party sector organisations are. Why can't we commission them directly? There might be something in that.

Damian Green: Just one point I will pass on before I get to your main point, when you say work coaches have to cope with the introduction of Universal Credit, as they are, in my experience, going out and seeing lots of them, they are hugely enthusiastic about Universal Credit.

Q57 **Heidi Allen:** I am not saying they don't think it is great, but it is just more change. It is a new thing that they are going to have to take on.

Damian Green: They love it. They genuinely come to work thinking, "I am going to be able to help someone today in a way that is better than I have done before".

Q58 **Heidi Allen:** Yes. I am just saying they have a lot on their plate.

Damian Green: That is not an issue. On your main point, I think to some extent, just for practical reasons, if people are looking for work then the Jobcentre is the sort of place they turn up at. The Jobcentre needs to play a significant role.

Heidi Allen: But if we want to do something differently—

Damian Green: Absolutely. I think partnership working of the type that the Work programme did, and Work Choice does, and the Work and Health programme will do, is absolutely the way ahead. Jobcentres are huge repositories of expertise, and information, and all that kind of thing, in themselves. Absolutely, charities and so on will be able to bring something new, and we do, and will even more enthusiastically in the future, seek to work in partnership with them. You are right; they do have some things that—

Q59 **Chair:** Have you paid them though, Damian?

Heidi Allen: That is the critical point, yes.

Chair: They are not big enough to compete for the contracts.

Heidi Allen: I think overall it would cost less for that individual, John Smith, who is looking for a job to go directly to a charity, to the Charity Commission, than to be bouncing about in the benefit system and being kicked around by the Jobcentre and Universal Credit. I think it would cheaper in the long run.

Chair: And more effective.

Heidi Allen: Yes.

Damian Green: We cannot let charities give out benefits.

Q60 **Heidi Allen:** No, but give the employment support.

Damian Green: If somebody wants a benefit and, as we observe, we are blowing the boundaries, there will be more—

Q61 **Heidi Allen:** But that is a supporting mechanism. That is not expertise, and mentoring, and coaching, and having a contact with a little company across the road that I have a relationship with and I know he will give you some work experience.

Damian Green: Yes, and that is why we need to work—sorry, Robert, you were going to say something.

Sir Robert Devereux: No.

Peter Schofield: Can I just add, in terms of the way that Work Choice and the Work and Health programme will be developed, what we are looking for when we contract is that the service they are going to provide to do exactly what you describe, Ms Allen, in terms of: what are the outcomes that they are going to promise us? Who is going to be most effective? It is not about just the cheapest way of delivering it; it is looking at outcomes and the service that is being offered.

Q62 **Chair:** Are you going to pay them for this? Because their grants generally have been cut, but they are still doing this vital work.

Heidi Allen: The Flexible Support Fund is not going to be enough to pay for them.

Peter Schofield: I was thinking in terms of the way Work Choice is working, the way that the Work and Health programme, when that is developed, will be worked through, the payment is based partly on outcomes and partly on providing the service, so it comes together. All I am saying is when we come to offer those contracts the point will be around what outcomes are being offered by the service provider.

Q63 **Chair:** Can we press you then to go away and think about what Heidi is saying, that in fact the awarding of contracts needs to be different to what it has been in the past so that those who have a track record of helping people into work, especially those with disabilities, are rewarded properly? At the moment we rely on their charity to help deliver the Government's programme.

Sir Robert Devereux: This is quite an interesting space to be in. Typically when we have led larger contracts, which we do with the Work programme, the Government is able then to contract with larger providers to pay by results. You do the work and if you get the result we will pay. They are large enough to take that risk, and lots of charities are not in that position. They would want to do the work, but they do not want to have their work connected with the outcomes.

What you are pitching, essentially, is a slightly more relaxed regime in which we would, as a Department, give Papworth some money to recruit some people who would work and we will be hoping that good things would flow, but we would not be requiring it as a matter of contract. That is a perfectly legitimate way to go about it. It is the way that we have persistently not done for the last four or five years, because the Government has consciously wanted to put taxpayers' money only into play in response to somebody saying, "Yes, I will be paid if I do something".

Q64 **Chair:** Okay. But the contracts are also relying on the sort of organisation Heidi described. I can understand as a Department you want to deal in large numbers. It is totally understandable. What is happening is you are relying on the charity and smaller organisations to help deliver these goals, and they are not rewarded fairly, either by the contractors or by yourselves.

Sir Robert Devereux: I am observing that the world that we used to be in a long time ago, one we could return to, it was a lot more local discretion. The Jobcentre in your area would decide that a charity in your area looked like a good bet, put some money into it, and good things might flow. We have progressively moved in the other direction saying, "No, we should only put large quantities of spending—" we were spending £600 million a year on the Work programme.

Q65 **Heidi Allen:** For vast employment, that is the right thing to do, and the Work programme worked for easier-to-help people.

Sir Robert Devereux: It is an interesting choice, and there is a choice there for the Government whether or not, for the group that we are now trying to help, it would be better to go back to local commissioning of a non-outcome based priority. That is what the Committee is pitching to me.

Q66 **Chair:** When Damian describes the setting of Jobcentre workers free, or freer than they were, the increased pleasure they now get because of the discretion they have in helping people into work, what we are also suggesting is that if you had an innovation fund that was larger than it is now, you will both increase job satisfaction and effectiveness of your service, although Richard may want to come in and disagree.

Damian Green: I feel the shadow of the PAC looming over this one in three years' time, because, as will inevitably happen, if you did a non-outcome based set of contract decisions—

Q67 **Heidi Allen:** It is risky. I suppose the point I was going to add is: I think there are enough examples of organisations like the Papworth Trust or, slightly different topic but, Damian, you and I have been corresponding on Working Chance, this organisation who helps women ex-offenders. They are just doing it. I think there is enough evidence there, and you could put evidence requirements on them; we just have to be open minded enough to go and find it.

Sir Robert Devereux: Good of you to worry about the PAC, because it will be me doing that.

Damian Green: I am all heart.

Sir Robert Devereux: Yes, exactly.

Q68 **Chair:** You do not worry about PAC because every year you get your accounts signed off, they criticise you, and that is it. There is no great threat from PAC, is there? You just appear before it—you might see it differently—and you get away with it.

Sir Robert Devereux: Okay. You can come to the next hearing with me. You will be very welcome. Part of these stories is that a lot of the people who connect with the charities are keen to look for work. They are in the volunteer mindset; they already have an attitude that says, "I want to be in work". We just have to be a little bit careful and make sure that this system works for everybody that turns up. As I say, it is perfectly legitimate. It is not the way we are currently designing it, because we are designing it based on protecting taxpayers' funds with outcomes. If this Committee thinks they would rather have local discretion and, "It will all be all right on the night", which is a slight worry—

Q69 **Chair:** No, we are not. What we are saying is an element of discretion.

Sir Robert Devereux: What does that mean, in contractual terms, Frank?

Chair: It means at the moment that you should have more flexibility than you currently have, that is all. We are not asking you to throw it all overboard and go madly the other way.

Heidi Allen: Or trial it, maybe in a devolution area. I will put my hand up for Cambridgeshire. We will try it.

Chair: All right.

Q70 **Heidi Allen:** Another thorn in our side, Damian, I must apologise but I am a stuck record. No more cuts this Parliament, welfare—we have all heard that. We have heard suggestions that the benefit cap could be less in some parts of the country, a lot of parts of the country. So, overall, fiscally, it was no cuts to the budget as a whole. Could we not look at the benefit caps now, such as Frank's, etc., and look at ESA run cuts again instead, and fund those?

Damian Green: I will repeat, we are not looking for new cuts and that would be a new cut. I am quite surprised to come in front of this Committee and be asked to provide a new cut. This is an interesting experience that I had not expected. I suspect, in practical terms, those—

Heidi Allen: It is funding it more widely.

Damian Green: Life is full of surprises. We would be talking about tens of millions as opposed to billions, so I think the funding wouldn't—particularly if you are piloting it in an area. Anyway, as I say, since we have said no new cuts, we are not looking for new cuts.

Q71 **Richard Graham:** First, just to comment: I do think that the model of payment by results fundamentally has to be the way that the Department continues working. The difficulty that my colleagues are expressing, and that all of us have seen in our constituencies, is where you have one or two organisations that clearly are doing good work and getting results, but appear to see the financial benefit of that really going to the major contractors who can manage the cash flow, as you said earlier, Sir Robert, in terms of spending first and then getting the payment by results later. That is always going to be a tension in the dynamic. I guess what, in a sense, the Committee is just asking is whether you feel that the balance in that dynamic between the benefits that accrue to the major contractors who are then commissioning out the actual detailed work on the ground are being shared fairly, or whether there is anything in that relationship that might enable some of these very good small suppliers to be able to do a bit more? That would be my comment.

Sir Robert Devereux: That is a very real observation, and as recently as this Monday we were having a conversation precisely along those lines, because it does not follow as night follows day that if the prime contractor is paid by outcomes that everybody in the supply chain must be paid by outcomes. It is very convenient if you are the prime and you can pass down to Papworth charity a prime contract type payment, but that is not really doing much priming, in my view.

Another option is to say, "Well, we will have the intermediary at this scale. We, the taxpayer, will only pay for outcomes". A prime would ensure that five people in Cambridge are doing good work on whatever basis the five people are happy to do it on. That would then involve us, though, having to reach into the supply chain in the way we think about the prime contractor. We got to the point of thinking, "Well, that is an interesting question to ask". We thought that on Monday. You are in exactly the same space, so that is reinforcing it, Monday to Wednesday.

Q72 **Richard Graham:** Chairman, that is an encouraging step and in due course perhaps we can hear more as to how thinking evolves on that.

Chair: The Prime Minister believes in looking into supply chains, because she does it on modern slavery.

Damian Green: It is a perfectly valid point, particularly if you know somebody is doing good work, and if they can demonstrate to a prime supplier, "Look, this is what we have done in the past five years. There is no intermediary. We should do it for the next five years and you can hit your targets with the Department". There ought to be a sensible negotiation to be had between prime contractors and charities like this.

Chair: Guidance from you would be key. Thank you.

Q73 **Richard Graham:** I am conscious that we have focused most of this session so far, and probably rightly so, on welfare and employment, but of course this is the DWP and so to put the "P" into this discussion, can we come back to pensions a little bit? Auto-enrolment, absolutely right; we totally support what you said earlier and you will be aware of the earlier reports that this Committee did on auto-enrolment and so on. There are, it does seem to me, some potential clouds on the horizon and you know my concerns about the rollout of LISAs and what impact that may have in the longer term on people who may find, as the amounts of money required by all subscribing parties to auto-enrolment rises, that they have, in effect, a decision to make. Do they put some money into a LISA to help them get on to the housing ladder? In fact, of course, at the moment, anyway, the LISA is also being marketed as a retirement product, although the Treasury do not always accept that. Or do they put it into the auto-enrolment scheme that their employer is sponsoring?

Of course, there may be some small employers where the decision makers, the employers themselves, are saying to some of their younger members of staff, "You ought to perhaps have a look at the LISA, maybe that is a better option for you," which would, of course, be in their self-interest to some extent, because employers contribute to auto-enrolment, but they do not contribute to LISAs.

There is a wider question mark about whether those who believe that pensions are a product of the past, unexplainable, of no interest to young people and all the rest of it, are going to be completely subsumed by an increasing ISA culture that, to some extent, the Treasury has promoted over the last few years. What do you think is the balance of the relationship between trying to provide more savings tools in general for young and future generations, while also not doing down, unintentionally or intentionally, the huge benefits of savings for a pension and the advantages of having tax benefits up front to promote that saving? How can we get this balance right and what threats are there to auto-enrolment that DWP is going to have to think about?

Damian Green: Starting from first principles, saving is a good thing and it is an extremely difficult thing to encourage people to do, particularly at times when people are feeling squeezed in their earnings. It is particularly difficult to sell to people the benefits of pensions when they see—not "see" because it is all slightly opaque, but all they ever read about pensions are the problems. That is the battleground on which we are fighting.

The question of balance between non-pension savings products and pensions, or indeed—as in the case of LISAs, if that is what we are calling them—semi-pension products and pensions, is one that has to be struck. Where that will empirically come out we cannot know yet, because LISAs are not yet on the market so we cannot see what the take-up will be. All I would say is that the evidence of auto-enrolment is surprisingly gratifying in the numbers of people who have got involved, because there is nothing new about this thought that, for young people, pensions may feel like a bit of a waste of time. The money going out of the bottom right-hand column of their payslip that they will not ever see the benefit of. That does not appear to have taken hold. Ten million people will now be saving for a private pension by 2018, and that will—

Q74 **Richard Graham:** We agree with you on that but, of course, the question is, what happens in the future? One is, people will notice these things more when they are paying more, they are contributing more. Secondly, of course, the LISA is not out there as an alternative option.

Damian Green: As I say, yes. In terms of what is going to happen, I do not know, because none of us can, yet.

Q75 **Richard Graham:** What would be the impact, for example, at the end of the FCA consultation on LISAs, which comes to an end at the end of February—six weeks before they are due to be rolled out, which raises serious questions about whether any feedback from the consultation can really be taken into account—if the rollout of the LISA was delayed a year so that some of the smaller employers could successfully auto-enrol more people?

Damian Green: There has been no sign yet that the anticipation of the LISA has altered people's attitudes to auto-enrolment. As I say, there is just no evidence there. In terms of the effects on LISA itself, as you know, it is not this Department's responsibility so I am afraid I don't have all the details of the consultation to hand. You would need to talk to Treasury Ministers about that. As I say, all I can tell you so far is that there is no sign that, as it were, the sight of the LISA on the horizon has had any effect on auto-enrolment.

Q76 **Richard Graham:** You don't mind my just pushing a little bit to say whether you have raised any concerns with the Treasury about, either when it rolls out in April or in the future, what might be the knock-on effect?

Damian Green: We are in constant dialogue with the Treasury on all important matters.

Q77 **James Cartlidge:** A related question about future pension provision, because you mentioned about whether 8% was enough, all these figures; to what extent are you concerned about the housing market and the fact that clearly it would seem fair to say that current savers are less likely to have nil housing costs when they retire, and not all current pensioners have nil costs but many do. I think 94% of home-owning pensioners own their homes outright, for example. To what extent does that start to impact on your assessment of the future pension provision, because if people are going to retire and have housing costs for most of their retirement, which is not inconceivable at the moment, that must surely have an impact on future pension needs?

Damian Green: It does. It is one of the factors. Obviously, it could be an important factor. It is quite difficult to project that far out, but in the aggregate it is one more factor that makes it absolutely vital that if people are going to have a comfortable old age, then they need to save early, they need to save a lot. Also, on the other side, I have wrongly neglected the new state pension that came in last April for the first time and means that everyone getting it, everyone who is qualified for it, will be above the poverty line. It is one of the reasons why, in the future, pensioner poverty will be much lower than it has been in the past, which I think is a major social advance that we do not make enough of in this country. It has been happening for 20 or 30 years. Obviously, over time, more people will qualify for the new state pension and I think—again, off the top of my head—it is about 80% will eventually be getting that. So, the basis of pensioner income, that state pension, will be considerably better in the future than it ever has been in the past. That is one of the answers to the housing issue. The other one, for anyone who can, is yes, supplement that with a private pension, because if you do not—

Q78 **James Cartlidge:** What I am referring to is that if someone is 50 and still hasn't got on the property ladder, it is probably not enough time for your classic capital repayment, 25-year term, to be whittled down at the point of retirement. Having brought up the state pension, can I ask you, on the triple lock—I am not suggesting you are about to do this; your pledge of no new search for cuts—if a benefit was to be still upgraded in future, perhaps the formula by which it was increased was changed, would that count under your definition of "cuts"? In other words, if the state pension was, for example, in future, only increased in line with earnings, would that change the cap under your pledge?

Damian Green: Let me deal directly with the triple lock since that is where you started. The triple lock was a manifesto commitment that we will keep. The triple lock—

Q79 **Chair:** In Parliament?

Damian Green: Well, all manifesto commitments that say they are for a Parliament are for a Parliament, so it is safe until 2020; it is far too early to think what we will do after 2020.

Q80 **Chair:** Is that going to be the flavour of your reply to our report, Damian? "I cannot think about it until 2020, far too difficult"?

Damian Green: It is about the fifth time I have said that in the last three days in various interviews. Yes, that is the flavour of what I say, that genuinely, in all seriousness, all benefit systems clearly are constantly under review but I do not want to give anyone the flavour that the triple lock is under any particular threat, because it is not. We are pledged to it until 2020. As I say, the discussion is often too binary. This idea that people receiving pensions are now rich and the young are poor and that there is a battle between the generations seems to me a crude and simplistic characterisation. Thirty years ago, 40% of pensioners lived in poverty. Today it is 14%. That is hugely beneficial. The triple lock has played a part in bringing that about, so the simplicity of the battle between the generations argument needs to be examined.

Q81 **James Cartlidge:** Sorry, with respect, while that may be true, let's not forget, we had a manifesto commitment in respect of the deficit that we have not stuck to and although the Chancellor listed the various reasons for that he did not list the elephant in the room, which is the fact that we have protected enormous areas of public spending that have grown, the amount that we protect. One might simply argue that when you look, for example, at what is happening in social care, can we afford to continue to protect such a generosity of benefits when other areas are under such pressure?

Damian Green: The fact that one manifesto commitment has had to go by the board is not a reason for ditching another manifesto commitment.

Q82 **James Cartlidge:** Even if it might be the cause of it, partially?

Damian Green: It patently is not. There are many forces operating on the overall deficit, of which this is a relatively small one.

Chair: One of the reasons—

Damian Green: It doesn't happen every year, apart from anything else. If you get wage growth up, then the bit of the triple lock that people complain about doesn't apply. This year, September wage growth was 2.4%, so the triple lock will engage next year, but it is 0.1% now. That is—

Q83 **Chair:** Sure, but one of the functions of this Select Committee is to publish reports to show it is safe for the Government to move behind certain areas. Sadly, the Labour party has rushed and impaled itself on a pledge that it will have a triple lock in the next Parliament. What this report was trying to offer the Government was a chance to be more even-handed between the generations, given the success you have had in reducing pensioner poverty and the cuts that have had to be imposed on working-age families.

Damian Green: I am always grateful for the Committee's advice and I read all the reports very carefully. Seriously, I do. As I say, as I have said constantly, we have a manifesto commitment that we will keep.

Chair: You have asked for an extra week before you reply to our report, so that is willingly given.

Q84 **Richard Graham:** Yes. Inevitably, it would be curious if a session like this did not involve WASPIs of one form or another and for safety's sake, seeing that there is yet another debate on the WASPI campaign, although I think there are now two campaigns—

Chair: One behind our report, Richard, and one—

Richard Graham: Yes, and the Department is quite aware of my views on this, but I think it would be wrong for us not to just ask whether the Secretary of State has considered, among the many things during the summer, the whole WASPI issue and the changes in state pension ages and will have noticed the campaign now by the Labour party to do something on pension credits. Would you like to put on the record, Secretary of State, what your own views on WASPI and this issue are?

Damian Green: In 2011, the Government committed £1.1 billion to lessen the impact of the changes for the worst affected, so no one sees their pension age change by more than 18 months compared to the previous timetable, and for four out of five women the increase is no more than 12 months. It appears to be almost universally agreed that equalisation of pension ages is a good thing, it is fair; and equally if we are to continue to pay pensions at a level that keeps people who are reliant entirely on the state pension out of poverty, then over time, because we all live longer, the state pension age is going to rise. That is what is in the system now. I have looked at the various alternatives and ameliorations that people have proposed, and they are all colossally expensive. Anything that makes a real difference costs between £9 billion and somewhere north of £30 billion so, with all due respect for those who are putting forward these ideas, constructively they do not work.

Essentially, this system is a fair one and the ameliorations that were put in, in 2011, seem to me to be perfectly sensible and that is the path we will proceed on.

Q85 **Richard Graham:** Since the SNP seems so keen to pursue this issue, what is the situation, constitutionally, about the ability of the SNP in Scotland to provide changes or compensation for those affected by changes in the state pension age if they wish to deploy public funds in that way?

Damian Green: The Scottish Government does now have the power—we passed the power over to them in September—to both boost existing benefits, but also pay extra payments because pensions are a reserved benefit. Nevertheless they have the power—under section 25 of the Scotland Act—to pay any extra benefit they wish, so if the Scottish Government wants to do something about this, they have the power to do so. They would have to take the money from Scottish taxpayers to do it.

Q86 **Richard Graham:** Indeed. Are you aware that the Scottish Government has made any decisions or commitment to actually do this, or is it purely a campaign by SNP Members of Parliament?

Damian Green: As I say, the Scottish Government now has the power. It would obviously need to pass legislation. They have been consulting about what they are going to do about social security more widely, and that consultation ended about six weeks ago, and they have not yet, to my knowledge, publicly pronounced what they are going to do. I assume at some stage in the next year they will pass legislation. It is in their power, it is part of the devolution settlement. The Scottish Government has the power to act on this matter.

Q87 **Chair:** Damian, there was an option that the Committee proposed, which was nothing like £9 billion to £30 billion per year, and that was that people could opt to take forever a reduced rate of pension. How seriously was that considered by the Department?

Damian Green: We consider everything the Committee says seriously. There are several problems with it. It cuts across our policy of simplifying the state pension. It also cuts across our policy on fuller working lives, one of the other areas—apart from disabled people—we have discussed at length; older workers we want to encourage to work longer.

Q88 **Chair:** It is not a permanent change being proposed, Damian. It was actually a transitional arrangement.

Damian Green: I know, but even so, there is still a cohort that would be affected. Also, the effect would be that if people were reliant on it, the ones who we are all most concerned about, then they would be permanently condemning themselves to a significantly smaller pension, and if, actuarially, they are going to live until they are 90, then that would be many decades when they would be much poorer than they would have been otherwise. It is not clear to me that this—

Q89 **Chair:** You have been paternalistic, have you not, and made the decision for them, rather than offering them the chance to make the decision for themselves?

Heidi Allen: I suppose, if I can add on to that, Frank, we are thinking of women who have had very hard working lives, who may have health issues so that they cannot continue to work for longer and equally, painful though it is to say it, may not have the same life expectancy, actuarially, as others. It is about giving people a choice.

Damian Green: It is quite difficult to construct a system on the basis of individuals' actuarial life expectancy.

Heidi Allen: That is for them to decide.

Damian Green: It is why we have a state pension age in the first place. The other point is—and I take the point about people who may be sick, maybe cannot work—that is what the working-age benefit system is for, that those people, if they are entitled to them, can claim working-age benefits up to the state pension age. That seems to me a much simpler way of getting women, in this case, the benefits they need and, in that case, would qualify for and deserve. That is a better way of getting money to them than introducing new complications into the state pension system.

Q90 **Chair:** Damian, it is the only question that has caused you any real trouble, isn't it, this one, I would note. The only one you have been uncomfortable in replying to.

Damian Green: No, I am not uncomfortable. I appreciate it is usually controversial.

Chair: I am just observing, that is all.

Damian Green: I think the Government has got this right. It is not an easy area. Raising the state pension age is never going to be easy, but it does seem to me that where we are does allow us to meet the needs of people.

Q91 **James Cartlidge:** I do want to come back to Richard's point, because I think it is incredibly important, because we have so many people contacting us, and they are being told by certain politicians that there is a solution sitting there, and at the moment—I have Peter in mind, particularly, on this—one of the solutions being reported is that you would use the National Insurance surplus. Indeed, at the moment, the SNP uses that to defend the cost of the triple lock. Now, unless I am very much mistaken, that surplus is not permanent by any means. Are you aware of what it is likely to be in the years coming? How comfortably would you view the policy, based on the temporary surplus in National Insurance?

Peter Schofield: Fundamentally, it all comes down to the same question, doesn't it, in terms of the affordability against the fiscal aggregates. A temporary surplus may be there, but ultimately, and as you see in the annual report and accounts, it all gets added up into our assessment of annually managed expenditure and that in itself gets added in to the fiscal arithmetic.

Q92 **James Cartlidge:** To be absolutely clear, say the cost of fulfilling the main WASPI requirement is £9 billion—let's just say that that is the case, we do not know that for certain—and you used the surplus for that this year, the following year you would have to know that you could get that money from normal tax. There is no guarantee it would be there, is there?

Sir Robert Devereux: I wish it was the case that the level of contributing benefits was determined by the National Insurance fund, but it is not.

James Cartlidge: It is an accounting surplus. It is actually—

Peter Schofield: It is an accounting surplus, and you will see that in our annual report and accounts. The fund itself is an HMRC fund but payments of benefits that are funded by the National Insurance fund count alongside annually managed expenditure and all of that adds together to Government debt and scores within the Government's overall borrowing.

James Cartlidge: It is not sitting there—

Peter Schofield: It is not sitting there in a bank account that is free money.

Sir Robert Devereux: The size of the fund is not determining in any way the size of the payments, that is the critical thing. The old world, in which that was the original invention, disappeared decades ago. It is a piece of the arithmetic but it is not determining—

Q93 **James Cartlidge:** You do realise this is an important point, because what other people have been told by other—and finally, on the constitutional point—

Sir Robert Devereux: It is not sitting there as free money.

Damian Green: The idea that the Government is sitting on billions of pounds of money that it is wilfully not spending is quite humorous. Steve laughs, and that is the best comment.

Q94 **James Cartlidge:** On the Scottish situation, *The Times* reported they were going to delay until 2020 Scotland taking over welfare. That was my understanding.

Damian Green: That is operationally, that they do not want to run benefit systems, because those are difficult things to do.

Q95 **James Cartlidge:** But if they wanted to, depending on Scottish income tax to fund this, and they would have the power to—

Damian Green: In September, we passed that power over as part of the Scotland Act.

Q96 **Richard Graham:** Secretary of State, just on this, what would you say to those who feel that the SNP, and indeed parts of the Labour party, are simply leading women born in the early 1950s up the garden path? The Labour party because they made no commitment to do anything about this in their last manifesto, and the SNP because, without significant commitment by the Scottish Government, that will inevitably irritate either those born, say, in early 1960 or cause sex discrimination cases in the European Court of Justice by men who feel that the same changes are not being made for their benefit?

Damian Green: I won’t get past that at a Select Committee, very tempting though it is. The last point is a really interesting one. A lot of the proposals it is not at all clear would be legal under domestic law or European law and, of course, we are still under European law for, presumably, two years after March. Yes, a lot of these proposals may well not be legal.

Q97 **Steve McCabe:** I want to change the subject, Secretary of State. I wanted to ask if you had had a chance to react to the National Audit Office report that I think was released this morning. If I have this right, it says it is costing you £250 million to administer the sanctions regime, plus about a further £35 million in emergency hardship payments. That is £285 million for a sanctions regime that, in itself, is worth £132 million. The report goes on to say that you have no idea how effective this sanctions regime is. If that information came across my desk, I would be wanting to take a long, hard look at the sanctions regime. What are you going to do?

Damian Green: I have already made some changes to the sanctions regime, as I said, on the hardship payments. I have announced that immediate hardship payments will be available to those who are homeless or those who have mental health issues. I said in the same—

Q98 **Steve McCabe:** £285 million versus £132 million is hardly value for money, and you do not know if it works.

Damian Green: Let me come on to both of those points in a second. I said in the same speech that I was particularly looking at the effectiveness of sanctions as they affect people with mental health problems. That has been brought before me as something that is worth looking at. In terms of the effectiveness of sanctions, there is quite a lot of evidence from countries around the world, with widely different benefit systems, which have sanctions, all of which say that they work. Our own evidence—

Q99 **Steve McCabe:** The National Audit Office concluded that you could not say that yours worked. Is that not the question?

Damian Green: We have asked people who receive benefits, which seems to be quite a powerful piece of research, and 70% of people who receive JSA and 60% of people who receive ESA say that the sanctions regime actually makes them more likely to follow the rules. That brings me on to the other point that the NAO makes that, "Well, you are saving this money and spending this amount of money". You cannot say how much money is saved by a sanctions regime, precisely because the vast majority of people obey it and we do not know. It is why we have laws; most people do not break the law, but nobody says, "Well, you cannot say whether it is worthwhile having a legal system or not". Of course it is, because it is just another encouragement to people to make sure the things—

Q100 **Steve McCabe:** Are you saying the sanctions regimes are a deterrent measure so that other people would be tempted to try and defraud the system? Is that what you think?

Damian Green: No, that is what the claimants say. That is what 70% of people receiving JSA say, that—

Q101 **Steve McCabe:** The people who are on the sanctions regime, they just happen to be the ones who are picked out to demonstrate the deterrent for everybody else? No wonder there is so much upset about it.

Damian Green: The vast majority of people who receive a sanction only receive one, which suggests to me, okay, these people are taking this seriously, so they then comply and that is great. They can get their benefits. The other thing, the salient fact, is that both JSA and ESA sanctions have halved since last year, which suggests to me that people—it is the same point, really. People say, "Okay, this is not just a paper exercise, I will get sanctioned if I do not comply, if I do not look for work hard enough". Then they start doing it, to their own benefit, of course, because that gets them into work. Obviously, we have only had the NAO report since yesterday, so we will be responding to it more fully.

Q102 **Steve McCabe:** Will you be responding formally to it?

Damian Green: I think the Permanent Secretary is in front of the PAC—

Sir Robert Devereux: A week on Monday.

Damian Green: A week on Monday.

Q103 **Steve McCabe:** You will be responding formally to the report there?

Sir Robert Devereux: Yes, so the Public Accounts Committee will take evidence, I will come back on some of the things that you have been saying and in due course the Government will respond in a Treasury minute in the normal fashion.

Q104 **Chair:** Damian, have you seen "I, Daniel Blake"?

Damian Green: I haven't yet, no.

Q105 **Chair:** Might I suggest that you do, because what it does portray is a benefit system that has a sanctions regime that is very, very effective for the scallywags that are clearly there, but does not have enough flexibility in it for staff to respond to those who are not. That is not the point of the film, the point of the film is how awful the sanctions regime is, but the message I took away from it was that, in a sense, any scheme of welfare will have a proportion of scallywags it has to deal with who are going to work the system and I think the sanctions system works quite well for them. What it does not do is for people who don't quite fit into the categories, hence the proposal has been put forward to you about a yellow card system so people are fully warned of what might happen to them if their behaviour does not change.

Damian Green: We trialled something like that—

Chair: I know you have. You have indeed.

Damian Green: —in Scotland. We are evaluating that at the moment. We are looking at ways of improving the sanctions regime.

Q106 **Chair:** Have you seen it, Robert?

Sir Robert Devereux: I have not seen it, no. In a process of sanctions, if somebody is in one of our offices and our worker has reason to doubt their work and their conditions, they will invite them to give evidence. If they have not turned up, then they obviously cannot ask for that evidence. The decision maker must then make contact with them and they seek to phone them up. If they cannot get them on the phone, they then write to them. The number of people who have had no opportunity at all to portray whatever their good cause is, is a very low number. The characterisation that a member of the Jobcentre determines something is simply a mischaracterisation.

Q107 **Chair:** Sure, but if the system works so well you wouldn't have tried the yellow card system? If you were not worried about how the system works—

Sir Robert Devereux: No, no, the one area where I think is a good question is if you have not been in the Jobcentre and if the decision maker did not get you on the phone and at the moment the decision maker writes to you and asks for a reply within five days—it is a condition of benefit—then the idea that the five days could be longer is a good question, but you come back to the question, these are people who are supposed to be looking for work and we cannot find them. There is a question for the system about, well how can that be the case.

Q108 **Chair:** I am not disputing about how you deal with the scallywags. I am actually dealing with those who are quite frail, who find it very, very difficult to enter into a computer orientated world and who sometimes are not 12 pence to the shilling.

Damian Green: We are aware of that and that is why we constantly try to improve the system. I can only deal with the facts. The complaints fell last year. Complaints were down 6,000 to 47,000, so the number of people complaining is going down, which is clearly an objectively good sign.

Q109 **Heidi Allen:** Just a small plea, really, if I may? I have had a few conversations with the Trussell Trust. I am sure you talk to them anyway.

Damian Green: I saw them on Monday.

Heidi Allen: Brilliant. I am sure they would bite your hand off to work with you and file a submission, because there is a link of foodbank users to sanctions. It might be a little bit statistically up and down, but they have expertise. That smile, Robert, they do have expertise. Please work with them.

Damian Green: We do. As I say, I met them all on Monday of this week and we have said that there are clearly contacts that can be made two-way that would help their clients and our clients, so I am absolutely happy to work with them.

Q110 **Chair:** They are going to present data, aren't they, which is more accurate, than they have done in the past?

Heidi Allen: Yes, they have the data there.

Damian Green: That is, I think, for them to answer.

Sir Robert Devereux: I know that you are trying to finish. Can I just come back to the question you asked earlier, because I have checked on it? The employment data and the unemployment data is all based on surveys, it is not based on benefit recipients, so your concern that somehow or other Universal Credit is somehow affecting the published data on employment, even at constituency level, is wrong. I promised I would write you a letter.

Q111 **Chair:** Can we have a letter on that?

Sir Robert Devereux: I have checked and the published figures on employment and unemployment are not being affected by anything to do with the creation of Universal Credit. We do not use benefit records to—

Richard Graham: They are, for the record. No, no, they are.

Q112 **Chair:** We may come back, if need be, after we have your letter. Can I conclude the session by talking about the life chances strategy the Government is going to issue, Damian? A plea really about the extent to which there is going to be a proper cross-departmental approach in that if we are going to try and change the pattern of welfare claimants in this country, it surely has to come through a life chances strategy. What importance do you put on the foundation years before children get to school to ensure that poor children do not become poor adults?

Damian Green: It is an element of it. I will let my slip show and reveal that the handwritten words that I put on my notes were, "Importance of cross-government strategy". I completely agree. It will be led by this Department. If we don't get things like early years right and various other things right—that are not the direct responsibility of this Department—then it will be less effective than it should be. We are absolutely determined to do that. Indeed, clearly it is not the entire answer but early years issues are part of that strategy. As you know, a lot of it is about finding the measures that we can target that get to the underlying causes and not do simple measures that have been used in the past. Yes, we will be producing new thoughts on that in the coming months.

Q113 **Chair:** When will we be seeing the report, Damian?

Damian Green: In the early part of next year.

Q114 **Chair:** Which means what?

Damian Green: It means in the early part of next year.

Q115 **Chair:** Before March is out, we expect to see it, do we?

Damian Green: I will stick to the time-honoured Whitehall formulation of, "In the early part of next year".

Q116 **Chair:** Will it be before or after the Green Paper on pensions, do you think?

Damian Green: That is a good question. My guess is after.

Chair: After? Very good, great. Damian, Robert and Peter, thank you very much for the session.